



## Is the Third Time the Charm for Telus?

### Description

**Telus** ([TSX: T](#))([NYSE: TU](#)) just doesn't like to give up, finally announcing an agreement to purchase wireless upstart Mobilicity. The deal is subject to approval from the Ontario Superior Court of Justice, the Competition Bureau, Industry Canada, and Mobilicity's debtholders.

This story should sound familiar – Telus tried to buy Mobilicity twice last year, but got rejected by Industry Canada. As Industry Minister James Moore repeatedly puts it, he “will not approve spectrum-transfer requests that decrease competition in our wireless sector.” So what makes this time different?

### Time to give up on the upstarts

For a while now, it has been crystal clear that the wireless upstart experiment has been a complete failure. None of them have provided any meaningful competition to Telus, **Rogers Communications** ([TSX: RCI.B](#))([NYSE: RCI](#)), or **BCE** ([TSX: BCE](#))([NYSE: BCE](#)).

Mobilicity is a perfect example. The company has failed to gain any traction in the Canadian market, and currently has only 165,000 active subscribers. Obviously this has not been meaningful enough to dent the market share of the big three. Nor has it been enough to save Mobilicity from creditor protection, which it entered in September 2013.

Mobilicity did not participate in the recent 700MHz auction, and neither did any of the other upstarts. With the big three and **Videotron** all picking up prime blocks, the upstarts provide now provide no meaningful challenge to their larger rivals. So Industry Canada can approve Mobilicity's sale without decreasing competition.

### What does this mean for investors?

Investors in the big three telecoms have certainly benefited from the failure of the upstarts. Telus's shares have returned 24.4% per year over the last five years, while BCE and Rogers have returned 19% and 13%, respectively. Limited competition and subscription-based revenues have allowed all three companies to earn predictable cash flow, which investors love.

The problem is that the Canadian government seems just as determined to break the big three's stranglehold on the industry. Whether this comes from Videotron, or increased regulation, or perhaps a welcome mat for the American giants, the government can be counted on to pull out all the stops. And while it's too early to know what that looks like, it's risky to bet against the Canadian government at this point.

### **Foolish bottom line**

This headline is just the latest example of Ottawa's failed attempt to bring more competition to Canada's wireless industry. Understandably, this has been a very rewarding time for the big three's investors. But the Conservative government is just as determined as ever, and as long as it's in power, it won't give up. Telus investors, be careful.

### **CATEGORY**

1. Investing

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### **Date**

2025/07/26

### **Date Created**

2014/04/21

### **Author**

bensinclair

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